

VZCZCXRO7814
RR RUEHCN RUEHGH RUEHVC
DE RUEHGZ #0715/01 3640954
ZNR UUUUU ZZH
R 300954Z DEC 09
FM AMCONSUL GUANGZHOU
TO RUEHC/SECSTATE WASHDC 1232
INFO RUEHOO/CHINA POSTS COLLECTIVE 0413
RUEHBJ/AMEMBASSY BEIJING 0993
RUEHGH/AMCONSUL SHANGHAI 0341
RUEHCN/AMCONSUL CHENGDU 0342
RUEHSH/AMCONSUL SHENYANG 0351
RUEHHK/AMCONSUL HONG KONG 0405
RUEHGP/AMEMBASSY SINGAPORE 0015
RUEHKO/AMEMBASSY TOKYO 0046
RUEHIN/AIT TAIPEI 0298
RUEAIIA/CIA WASHDC 0383
RUEKJCS/DIA WASHDC 0379
RUCPDO/DEPT OF COMMERCE WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHINGTON DC 0026
RHMFIUU/FAA NATIONAL HQ WASHINGTON DC 0006
RUEATRS/DEPT OF TREASURY WASHINGTON DC 0225

UNCLAS SECTION 01 OF 02 GUANGZHOU 000715

SENSITIVE
SIPDIS

STATE FOR EAP/CM, INR/EAP, EEB/TRA/OTP AND EEB/TRA/AN
DEPT OF TRANSPORTATION PASS TO SMCDERMOTT, JSZABAT, KGLATZ
FEDERAL RAILWAY ADMINISTRATION PASS TO BPELLETIER
FAA PASS TO RCICERO
BEIJING, TOKYO AND SINGAPORE FOR FAA REP

E.O. 12958: N/A
TAGS: [EAIR](#) [ELTN](#) [EIND](#) [ECON](#) [CH](#)
SUBJECT: South China Airlines Battle New High-Speed Train

GUANGZHOU 00000715 001.2 OF 002

(U) This document is sensitive but unclassified. Please protect accordingly. Not for release outside U.S. government channels. Not for internet publication.

¶1. (SBU) Summary: The new high-speed train service between Guangzhou, Guangdong Province and Wuhan, Hubei Province debuted on December 26, 2009 as the world's fastest long-distance passenger train service. Ticket prices for the new service, however, are beyond the grasp of most Chinese, according to online commentators. Nevertheless, the high-speed service's pricing scheme has led airlines in south China to slash airfares and launch new services in response to the increased competition. End summary.

A Record Breaker

¶2. (SBU) South China is now home to the world's fastest long-distance passenger train service. Debuting on December 26, 2009, the Harmony Express travels between Guangzhou and Wuhan, covering a distance of 1,068km in three hours, which is seven hours less than traditional train services. As part of a larger high-speed network that will link Guangzhou and Beijing, the Guangzhou-Wuhan route includes 15 stops with trains leaving every half hour. A first-class ticket from Guangzhou to Wuhan costs RMB780 (US\$115); a second-class ticket costs RMB490 (US\$72). The express line's construction took four and a half years, with total investment estimated at over RMB100 billion (US\$14.7 billion), according to Chinese media reports.

Prices Too High?

¶3. (SBU) Some online commentators have argued that the ticket prices for the new high-speed train are too high for most Chinese to afford even a second-class ticket. With average monthly income of migrant workers in Guangzhou ranging between RMB1,000 and RMB1,500 (US\$147-US\$220), they speculated that the train would end up

servicing only the "elite" like officials and businessmen. Rumors circulating online and in the Chinese media also suggested that once the Guangzhou-Wuhan high-speed service is in place, traditional train services will be reduced, leaving few options for those traveling on this route. A true test for the new service will be the upcoming Lunar New Year when millions of the migrant workers in the Pearl River Delta travel inland to be with family. According to media reports, Guangzhou Railway Group, which operates the new service, does not rule out the possibility that there will be price adjustments in the near future.

Airlines Cut Prices...

14. (SBU) In anticipation of increased competition from the Guangzhou-Wuhan high-speed service, airlines in south China began implementing new market strategies prior to the Harmony Express's debut. Guangzhou-based China Southern Airlines led the way with cuts in airfare of up to 80% and the introduction of a new hourly shuttle service between Guangzhou, Changsha in Hunan Province, and Wuhan, according to information gathered from online travel agencies. Other airlines that have reportedly entered the price war include Air China, China Eastern Airlines, and Shenzhen Airlines. Liao Weijia, director of China Southern's Foreign Affairs Office, told ConGenOffs that in the current pricing scheme, China Southern can still compete with the high-speed train on the Guangzhou-Wuhan route, but if train ticket prices drop below China Southern's 50% markdown for the route, then the airline will have to re-evaluate the market.

And Enhance Services

GUANGZHOU 00000715 002.2 OF 002

15. (SBU) China Southern cannot solely rely on price cuts, but must also enhance service and speed to maintain its advantage, said Liao. Other elements of the airline's new strategy reportedly include no extra fees for changes between same-day shuttle flights; discounts for certain international bound tickets originating in Wuhan or Changsha and transiting Guangzhou; and improved in-flight food service. China Southern has also worked closely with Guangzhou's Baiyun Airport to offer shuttle passengers shortened check-in times; multiple check-in methods; and designated shuttle service counters, security screening areas, boarding gates, and baggage carousels.

JACOBSEN